DATE: JANUARY 25, 2013 **AGENDA ITEM 6**

TO: THE LOS ANGELES GRAND AVENUE AUTHORITY

FROM: DAWN MCDIVITT, COUNTY OF LOS ANGELES, CHIEF EXECUTIVE OFFICE, MANAGER
JENNY SCANLIN, CRA/LA, A DESIGNATED LOCAL AUTHORITY, REGIONAL ADMINISTRATOR

SUBJECT: **GRAND AVENUE PROJECT – PHASE I (PARCEL Q) SHORT TERM COMMENCEMENT OF CONSTRUCTION EXTENSION**

IT IS RECOMMENDED THAT THE AUTHORITY:

Approve a second amendment to the Amended and Restated Letter Agreement Re: Revised Phase I, Parcel Q Schedule of Performance and Certain Waivers Under the Disposition and Development Agreement and Ground Lease, in order to grant a short term extension requested by Grand Avenue L.A., LLC ("Developer") with respect to Commencement of Construction of Phase I.

BACKGROUND INFORMATION:

In February 2011, the Authority approved the First Amendment to Amended and Restated Letter Agreement Re: Revised Phase I Schedule of Performance and Certain Waivers Under the Disposition and Development Agreement (DDA) and Ground Lease (referred to herein as the "First Amended Extension"), which extended the deadline for Commencement of Construction of Phase I to February 15, 2013.

As background information, the following is a summary of the key terms of the existing extension:

- If and when construction of Phase I occurs, Developer shall pay the Authority an "Extension Fee" in the amount of (A) $250,000, multiplied by (B) the number of months after February 15, 2009 until the date that Commencement of Construction of Phase I occurs; provided that if Commencement of Construction of Phase I occurs by February 15, 2013, then the $250,000/month Extension Fee (which commenced to accrue on February 15, 2009) will be automatically deemed to have ceased accruing on February 15, 2011, thereby capping the Extension Fee at $6,000,000.

- Since February 16, 2011, Developer has been obligated to pay the Authority "Quarterly Payments" of $50,000, which obligation is scheduled to cease on February 15, 2013.

- The Authority is entitled to a payment of $1,000,000 on the date that

Commencement of Construction of Phase I occurs.

- Developer and Related have provided the Authority with a release and waiver of claims as of February 15, 2011, which expressly includes a waiver of any right whatsoever to get a refund of the previously paid $50,000,000.

- Developer reimbursed the Authority for legal and consulting fees incurred in connection with negotiating and drafting the extension agreements.

- Developer agreed to reimburse the Authority for legal fees incurred in connection with any future “changes to the Project Documents for Phase I.”

On January 18, 2013, the Authority received a formal written request from Developer for a 2-3 month extension (herein, a “Short-Term Extension”) to rethink the original plan for Parcel Q and allow for the development of Parcel Q in phases, subject to a master plan for the block that preserves basic tenets of the original implementation plan, including 20% affordable housing onsite and compliance with the Grand Avenue Project Final Environmental Impact Report (Attachment A).

The First Amended Extension allows for good faith negotiations between Developer and the Authority with respect to the deadline for Commencement of Construction of Phase I, if Developer provides Authority with reasonable evidence that there is not available construction financing on commercially reasonable terms for “Comparable Projects” (defined in the First Amended Extension as first-class, mixed-use development projects within the continental United States of $500,000,000 or more in value). We reviewed the two third party opinions provided by the Developer with the request for the Short-Term Extension. (Attachment B) It is our conclusion that although some first-class, mixed-use development projects of $500,000,000 or more in value are underway on the East Coast, obtaining financing for such projects in the Southern California sub-market remains infeasible in the near term.

ALTERNATIVES AND RECOMMENDATION:

The Authority has three options with respect to a response to the Short-Term Extension request: deny the request; grant the request for the Short-Term Extension, retaining all Authority rights to grant or deny further extension requests; or grant an extension for a longer period of time, retaining all Authority rights to grant or deny further extension requests.

We recommend granting a three (3) month extension of the deadline for Commencement of Construction, from February 15, 2013 through May 15, 2013 (“Extension Period”). To document the extension, Authority and Developer would execute an amendment to the existing First Amended Extension (a “Second Amendment”) substantially in the form of the First Amended Extension (to the extent applicable), to include the following terms:

- The Second Amendment would require the Developer to execute a new release and waiver in the form previously executed in connection with the First Amended Extension, updated to apply as of the February 15, 2013. The Developer would remain obligated to pay the Authority all actual out-of-pocket third party reasonable legal and consulting fees incurred in connection with the negotiation and preparation of the Second Amendment and any further amendments to the DDA, Ground Leases and/or ancillary documents, including review, approval, drafting and/or negotiation thereof. The Developer would remain obligated to make the Quarterly Payments during the Extension Period.

- The extension shall be for the purpose of giving Developer and Authority the time to negotiate a detailed term sheet with regard to the potential development of Phase I of the Project, as well as addressing future rights with respect to Phase III (Parcel W-2) of the Project, on terms that are mutually acceptable to both Developer and Authority. The Second Amendment will specify that Authority has no obligation of any kind to enter into any modification of the existing documents governing the development of Phase I and Phase III of the Project. If the parties are unable to come to mutual agreement on a term sheet addressing all material terms regarding the development of the balance of the Grand Avenue Project site by the end of the Extension Period, then Authority will have the express right to terminate any further discussions with Developer and to exercise its right to terminate the DDA and Ground Lease based on Developer's failure to proceed with Phase I as required by the First Amended Extension and the Project Documents.

- The Second Amendment will provide that if the negotiating teams for Developer and Authority reach agreement on a mutually acceptable term sheet regarding the future development of Phase I of the Project and future rights with respect to Phase III of the Project, then Developer may request one last further extension of the First Amended Extension for the purpose of drafting and negotiating the necessary definitive documents to effectuate the terms of the approved term sheet which must be acceptable first to the County, as owner of Parcel Q and member of the Authority and, second, to the CRA/LA Successor Agency and member of the Authority. The Second Amendment will specify that any such further extension is subject to further approval by the Authority and authorization by the Authority to move forward for the next steps in project review, including the revised project description formulation in sufficient detail to permit CEQA analysis, and the proposed revision of project documents and requests for approval as required by all of the governing entities, the Authority, County, CRA/LA and the City of Los Angeles, and any related reviews.

- The Second Amendment will provide that the Authority shall have no obligation to grant any additional extensions of the Schedule of Performance under the DDA and reserves all of its rights and remedies under the Project Documents. The waiver and release language in the Second Amendment shall include a waiver of any claims by Developer that it has incurred or will incur or suffer any loss or claim based upon the granting of the extension for the Extension Period, and shall specify that Developer is not entitled to rely on any further extension of the Schedule of

Performance for Phase I or Phase III (Parcel W-2) of the Grand Avenue Project being granted by the Authority (i.e., waiver of detrimental reliance claims, etc.).

Grand Avenue Los Angeles, LLC
18201 Von Karman Avenue ▪ Suite 900 ▪ Irvine, CA 92612

January 18, 2012

Supervisor Gloria Molina
County of Los Angeles, 1st District
Chair, Los Angeles Grand Avenue Authority
856 Kenneth Hahn Hall of Administration
Los Angeles, CA 90012

Dear Supervisor Molina:

In follow up to our recent conversations, I am writing to make formal Related's request for an extension to the Commencement of Construction Date for Parcel Q of the Grand Avenue Project (referred to as Phase I in the Grand Avenue Project DDA). As you know, this phase of the Grand Avenue Project has been on hold since the collapse of the financial markets in late 2008. In the ensuring years since then, Related has been working diligently to successfully move forward and implement those components of the Grand Avenue Project that have been feasible in what was then a highly distressed and what is now a recovering marketplace. Those components have included:

- **Grand Park** – 12 acre three-block County-owned public park, completed and opened in August 2012, with design and construction managed by Related, and financed with $50 Million land lease payment from Related.
- **The Broad (Phase IIA)**--Contemporary art museum developed by the Broad Foundations, currently under construction and expected to open mid-2014, facilitated by an assignment of development rights for a portion of Parcel L by Related.
- **Parcel M Apartments (Phase IIB)--** 271 unit apartment tower (20% Affordable), currently under construction and expected to complete by year end 2014, developed by Related on Parcel M-2.

The First Amendment to Amended and Restated Letter Agreement Re: Revised Phase I Schedule of Performance dated February 15, 2011, stipulates that the Authority will negotiate in good faith regarding a possible further extension beyond February 15, 2013 if the Developer provides to the Authority reasonable evidence that there is not available construction financing on commercially reasonable terms for "Comparable Projects", defined as first class mixed use development projects within the continental United States of $500,000,000.00 or more in value. As a development company that is active both locally and nationwide, Related closely monitors the market for real estate financing and believes that such financing is not available at this time. For additional verification, we have also obtained third party opinions on the current market for financing large scale mixed use developments and also hotel developments (see attached letters from Eastdil Secured and PKF Consulting).

It is clear that a development of more than $500,000,000.00 or more in value will not be financeable in the near term. In order to continue the momentum begun by Grand Park, The Broad, and Parcel M Apartments, and as a condition of the extension, we would propose to rethink our original plan and allow for the development of the Parcel Q site in phases, subject to a master plan for the block that preserves basic tenets of the original implementation plan, including 20% affordable housing onsite and compliance with the project EIR. The first phase could include a single building, predominantly residential (20% affordable), and street level retail space. That phase would be subject to a revised

Schedule of Performance similar to that which we just completed for the residential development on Parcel M. Progress on plans for the remainder of the site, which of course would be governed by market conditions, would be discussed with the JPA in February of 2014. This would allow for a financeable development in the near term, and flexibility for both Related and the JPA to ensure that the remaining development can respond to market conditions.

As we have discussed, we believe the best way to consider our request is by granting a short-term extension of 2-3 months, to allow for a more detailed discussion of technical changes to the DDA that might be required, such as a change in the scope of development, and to review the availability of previously committed funds for affordable housing and public improvements.

We respectfully request the Authority's thorough consideration and that the Authority Board approve an extension to the Parcel Q (Phase I) Schedule of Performance accordingly at its meeting prior to February 15, 2013

Please feel free to contact me at any time should you have any questions regarding this request.

Thank you for your consideration,

William A. Witte
Vice President

Cc: Honorable Jose Huizar
William Fujioka
Chris Essel

PKF CONSULTING USA

November 20, 2012

Mr. Steve Eimer
The Related Companies
333 South Grand Avenue
Suite 4050
Los Angeles, California 90071

Dear Mr. Eimer:

Pursuant to your request, we have drafted this letter report relative to your proposed Grand Avenue Project, and the current economic and development climates relative to the project as was originally proposed and evaluated. We understand that you may potentially be reevaluating the original development plan given current market conditions, and as such are seeking our guidance and consultation relative to the suitability of the project in today's environment and future opportunities going forward. The following summarizes the background, recent developments, historical market data, and our current findings and conclusions. As discussed further herein, we are of the opinion that a potential opportunity exists to develop a hotel component as part of a future Grand Avenue Project, however, the project as originally proposed is not appropriate or financeable at this time given current market conditions. The basis for our conclusions is set forth in the following.

Approximately six years ago PKF Consulting was retained by the City of Los Angeles to complete an analysis of the potential market demand for a proposed 275-room luxury hotel to be located in Downtown Los Angeles, California. Our study was undertaken to set forth a summary of the existing facilities in the overall competitive market and their trends as to occupancy, average room rate, and mix of demand; to determine an estimate of induced demand generated by the hotel and mixed-use developments; and to provide an estimate of the performance of the proposed subject hotel. In addition to the hotel component, the iconic 50-story tower in which the hotel was to be constructed was also originally slated to include 250 luxury, for-sale branded condominiums. As entitled, Phase One (identified as Block Q) of the originally estimated $1 billion project also included a 19-story tower with 126 for-sale luxury condominiums and 98 affordable, or below market rate apartments, along with a 250,000-square-foot retail pavilion, as well as a Grand Civic Park.

Since the completion of our original market study much of the economic and development landscape has changed as it relates to both new hotel development and Downtown Los Angeles. From an economic standpoint in the Fall of 2006 the regional economy was experiencing a period of rapid expansion and prosperity as business activity and employment had fully recovered from the burst of the "dot-com" bubble and the

September 11 attacks that drove the national economy into a recession. Through much of the last decade the red-hot housing market also fueled a false sense of security regarding the strength of the U.S. economy. However, beginning in late 2007 or early 2008 a perfect storm of economic disasters hit the country. The most serious began with the collapse of housing bubbles in California and Florida, and collapse or bankruptcy of the nation's largest financial institutions, such as Lehman Brothers. By late 2008 distress was spreading beyond the financial and housing sectors, especially as the "Big Three" of the automobile industry (General Motors, Ford and Chrysler) were on the verge of bankruptcy, and the retail sector showed major weaknesses. These catastrophic events led the nation into a deep recession, second only to the Great Depression of the 1930's. The recession officially ended in late 2009, but its effects are still being felt and the level of economic growth coming out of the recession has not been as robust as compared to other recoveries of the United States economy.

From a local perspective, Downtown Los Angeles was undoubtedly affected by the downturn in the national economy as high unemployment persisted, business activity slowed and commercial lending and new development across all sectors virtually came to a standstill. However, coming out of the recession the local area has fared much better than much of the State of California as numerous new businesses, housing units, restaurants, retail shops, and entertainment venues have opened in the past few years as Downtown moves towards positioning itself as a desirable and vibrant 24-hour metropolis. Developer interest in Downtown continues to strengthen given the positive improvements made to date, although many of the projects moving forward have been scaled down or repositioned to a more realistic nature given market demand and/or financial feasibility.

The recent boom and bust cycle had a profound effect on the hotel industry; not only in the day-to-day operations of properties, but also in how hotel properties were developed and financed. Prior to the collapse of Lehman and the government's $700 billion TARP infusion, financial institutions, hedge funds and numerous other sources of capital were eager to lend money to developers of all asset classes, including hotels. Many of these loans were non-recourse and required little equity on the developer's behalf. In turn the loan originators then bundled and sold these loans in the CMBS market to various investors as multiple tranches and at varying degrees of risk. Another popular financing vehicle used by developers of hospitality properties was to develop for-sale condominiums alongside (either in the same tower or on an adjacent parcel) luxury hotels. From a financial aspect, the primary benefit of developing a for-sale residential component is that the units are typically pre-sold before construction begins, with the eventual sales proceeds ultimately reducing the amount of developer equity required to help finance the overall larger project.

Today the lending climate has changed dramatically and the ability to successfully finance new ground up construction, especially in the luxury hospitality sector, is challenging at best. Given the large number of recession era loans that ended up in default or foreclosure, lenders in the marketplace have reverted back to more traditional and conservative parameters and underwriting criteria. Gone are the days of cheap and abundant capital sources, replaced today with a healthy skepticism and heavy upfront hard money commitments and recourse and carve-out stipulations. Similarly, one of the highly apparent casualties of the recession was the collective realization by the lending community that new hotel developments need to independently "pencil" or make sound fiscal sense on their own merits rather than be financed using alternative creative methods such as pre-selling condominiums as a basis for reducing the amount of capital ultimately required to successfully finance a new luxury hotel development. **The sheer volume of negative press associated with hotel condominium projects, the unwillingness of major hotel brands to commit to such projects today, and the continued uncertainty in the housing market all but ensure that a project such as Grand Avenue, as originally proposed to include a five-star luxury hotel and branded residential condominiums, is infeasible in today's marketplace.** Although we should note that if significant improvements were to occur, a five-star or a hotel of similar quality, would not necessarily be outside the realm of possibility in the long term. If the economic picture in Downtown Los Angeles continues to improve and additions to the Bunker Hill market like The Broad art museum become popular destination attractions, the market for a high quality, potentially five-star level hotel could re-emerge.

While we note that Grand Avenue Project as originally proposed is not likely viable given the plans for a five-star hotel and the financing assumption that pre-selling residential units would provide the needed equity to secure a construction loan, aspects of the project likely do have merit and could potentially be welcomed additions to Downtown Los Angeles. In particular, from our research conducted in the course of numerous engagements, including recently for the City of Los Angeles, the Downtown area is underserved in terms of the number of hotel rooms relative to other similarly size metropolitan areas and regional competitive destinations such as San Francisco, Anaheim, and San Diego.

Presented in the table on the following page is a summary of the historical performance of the competitive market from 2007 to 2011, year to date performance through September 2011 and 2012, as well as our estimates for year-end 2012 and forecast for next year. As shown the Downtown Los Angeles hotel market is fast approaching capacity and in the near future will be unable to accommodate any new visitors to the area.

Downtown Los Angeles – Full-Service Hotels Historical & Future Projected Market Performance of the Competitive Supply										
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2007	1,964,065	N/A	1,475,330	N/A	75.1%	$131.80	N/A	$99.00	N/A
2008	1,982,680	0.9%	1,396,286	-5.4%	70.4	146.60	11.2%	103.24	4.3%
2009	1,982,680	0.0	1,205,397	-13.7	60.8	133.61	-8.9	81.23	-21.3
2010	2,296,580	15.8	1,476,477	22.5	64.3	142.33	6.5	91.51	12.6
2011	2,342,570	2.0	1,575,879	6.7	67.3	155.31	9.1	104.48	14.2
CAAG	4.3%		1.4%			4.2%		1.3%	
YTD 9/2011	1,738,495	N/A	1,208,343	N/A	69.5%	$154.15	N/A	$107.14	N/A
YTD 9/2012	1,493,215	-14.1%	1,135,161	-6.1%	76.0%	170.94	10.9%	129.95	21.3%
2012E	2,015,530	-14.0%	1,494,839	-5.1%	74.2%	171.06	10.1%	126.87	21.4%
2013F	2,037,795	1.1%	1,532,210	2.5%	75.2%	181.33	6.0%	136.34	7.5%

Source: PKF Consulting

From 2007 to 2011, the annual rooms supply in the competitive hotel market remained flat until 2010, when the JW Marriott opened 878 rooms in February and the Ritz-Carlton opened 123 rooms in May, resulting in a 15.8 percent growth over the previous year. Demand for rooms, as demonstrated by occupied room nights, grew 22.5 percent during the same period, fully absorbing the additions to supply. Demand during the five year historical period grew at a compound average annual growth (CAAG) rate of 1.4 percent over the historical period, which was outpaced by the long run supply growth of 4.3 percent per year. The market's occupancy as of September 2012 year-to-date increased over the same period last year from 69.5 percent to 76.0 percent, as demand continues to return. This positive growth is related to the performance of the JW Marriott and its ability (as well as that of the larger $2.5 billion LA LIVE sports and entertainment complex) to induce room nights into the marketplace. It is important to note that the decline in annual supply and occupied rooms as of year-to-date is a result of the closing of the Wilshire Grand Hotel in December 2011.

The average daily rate of the competitive market during the historical period increased by 4.2 percent, which was assisted by significant growth, with the exception of an 8.9 percent decline in 2009. The year 2011 brought a 9.1 percent increase, with a further 10.9 percent ADR growth as of year to date 2012. Revenue per available room over the five year period increased by 1.3 percent, as a result of fluctuations in both occupancy and average daily rate during the five year period. Strong occupancy increases in 2011, coupled with increases in average daily rate resulted in a 14.2 percent increase in revenue per available room. Year to date through September, RevPAR is up an additional 21.3 percent. Outside of any additional significant economic changes, these trends are anticipated to continue for several years as downtown's positioning continues to strengthen, coupled with the closure of the Wilshire Grand, which took 896 lower-end rooms out of the market in late December 2011.

We estimate that the Downtown hotel market will see a decrease in occupied room nights of 5.1 percent in 2012 amid a 14.0 percent decrease in supply, as the Wilshire Grand closed for demolition to make way for redevelopment of the site, including a proposed

900-room hotel. Average daily rate is estimated to increase 10.1 percent in 2012 to $171.06. Due to capacity constraints, in 2013, we forecast occupied rooms to increase by 2.5 percent amid an average daily rate increase of 6.0 percent as the convention center hotels will continue to provide a substantial room block of higher quality hotel rooms. Supply in 2013 is forecast to experience a 1.1 percent increase, as the 183 room Ace Hotel opens in September 2013.

Based on the above detailed historical and projected statistics it appears that there may be an opportunity for future hotel development in Downtown Los Angeles, and in particular, as part of a potentially new and reimagined Grand Avenue Project. While we are very hesitant to recommend the development of a five-star hotel as originally proposed for the site, given our general market knowledge and understanding of current and planned developments in Downtown, the opportunity for the development of a good quality hotel on the site is a distinct possibility.

We thank you for the opportunity to conduct this study and look forward to discussing our findings with you, and continuing to work with you and your development team as you continue to evaluate potential viable development scenarios for the Grand Avenue Project site.

Sincerely,

PKF Consulting USA

Bruce Baltin
Senior Vice President

Addenda

Statement of Assumptions and Limiting Conditions

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This report is made with the following assumptions and limiting conditions:

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing this report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the value of the subject property. The value estimated in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a loss in value. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the projections were formulated assuming the hotel to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with proper written qualification and only in its entirety for its stated purpose.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS
(continued)

Testimony in Court - Testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the American Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Dissemination of Material - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party for whom this report was prepared may distribute copies of this appraisal report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation, may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

EASTDIL
SECURED

100 WILSHIRE BLVD., SUITE 1500
SANTA MONICA, CALIFORNIA 90401
TEL (310) 526-9000 FAX (310) 526-9050

November 20, 2012 ***Delivery Via Email***

Mr. William A. Witte
President
Related California
18201 Von Karman Avenue, Suite 900
Irvine, CA 92612

Re: Availability of Construction Financing for Large Mixed-Use Development Projects

Dear Mr. Witte:

You have asked us to provide information on the availability of construction financing for first-class, mixed-use development projects in the Continental United States of $500 million or more in value. Based on our experience in the market, construction financing for large, high rise mixed use development projects, particularly those involving upscale hotel and retail, is a not available today.

Eastdil Secured Overview & Relevant Experience

Eastdil Secured ("ES") specializes in institutional property sales, debt placement, loan sales, joint ventures, entity fund raising, investment banking, and other transactions in the domestic and offshore, public and private, debt and equity markets. ES currently has 230 professionals across 13 offices – including Los Angeles, San Francisco, New York, Chicago, Boston, Washington DC, Atlanta and London.

ES has closed over $665 billion of commercial real estate transactions since 2005. The ES debt placement team has closed or is under contract with approximately $47 billion of financings with 86 different lenders since January 2010 alone. Furthermore, ES is the market leader in underwriting, structuring, and marketing large, complicated loan transactions with 62 deals in excess of $200 million since January 2010.

ES has also been active in the development financing arena, with 13 deals representing $1.1 billion in loan volume (average loan size of $86 million) since January 2010. These financings represent multifamily (5 loans), office (3 loans), retail (3 loans), and hotel (2 loans) transactions.

Development Financing Market Trends

Construction financing without significant equity continues to be very difficult to obtain. Lenders are quite risk averse, particularly for high rise development and projects that can't be phased. Over the past few years, construction financing has been principally available for:

- Apartments with loan amounts less than $150 million
- Select, Substantially Pre-Leased Office Projects (typically 75% pre-leased)
- Select, Substantially Pre-Leased Retail Projects
- Select Midtown Manhattan For-Sale Residential and Hotel Projects

If a project does not fit the criteria above, it is nearly impossible to obtain a construction loan. Large projects with a mix of uses are even more challenged. To that end, very few $500 million mixed use projects have been financed. We are aware of only 3 projects in the US since 2009 and none of these are on the West Coast. These 3 projects involved either a) substantially pre-leased office buildings, or b) For-Sale Residential product in Midtown Manhattan where the market is quite strong.

Project:	**Hines CityCenter DC**	**432 Park**	**One57**
Location:	Washington D.C.	New York, NY	New York, NY
Type:	Mixed-use	For-sale residential	Mixed-use
Total Cost:	$750 million	$1.25 billion	$1.4 billion
Loan Amount:	$390 million	$400 million	$700 million
Comments:	Primarily pre-leased office (75%) and for-rent residential with a smaller and partially pre-leased retail component, as well as for-sale residential funded entirely from equity	Park Avenue location with approximately 2/3 of the total project cost previously raised in the form of equity	Midtown location with 135 for-sale residential units on top of a 210-room hotel

There is one large project in downtown Los Angeles that is currently in process at the Wilshire Grand Hotel. The owners, a Korea Air consortium, have indicated that they plan to build 400,000 feet of office, 900 hotel rooms, and 45,000 feet of retail. Demolition has begun. It is not clear how the owner intends to finance the construction. It is expected that the construction will be financed using corporate cash and/or credit lines of Korean Air and its affiliates. This deal is not representative of what can be done in the market today; as this financing would not be available on a conventional basis without the 100% corporate guaranty by a major, investment grade company.

The Challenge of Large Projects

The current lender market for large development financings requires a large bank to act as "lead agent" and build a syndicate of smaller regional banks to fill the balance of the loan commitment. Because there are general limits to how much principal each bank has approval to hold ($50 million to $75 million for larger banks, and $15 million to $25 million for smaller banks), larger loans require increasingly larger "clubs" of banks making them very challenging to place. Accordingly most construction loans today are less than $125 million.

Summary of Availability of Construction Financing for Mixed-Use Development Projects

Based on the challenges discussed in this letter and our direct experience as a market maker, construction financing on commercially reasonable terms for first-class, mixed-use development projects in the continental United States of $500 million or more in value is not currently available, other than for very unique Midtown Manhattan projects (the Hines project in DC I think is a one-off; can't imagine another of that scale being financed today in DC). We would be happy to discuss our experience in more detail if so desired.

Sincerely,

D. Michael Van Konynenburg

D. Michael Van Konynenburg
President